

**DIRECT TESTIMONY OF**

**WILLIAM C. KLECKLEY**

**ON BEHALF OF**

**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2019-281-S**

**IN RE: APPLICATION OF PALMETTO UTILITIES, INC. FOR ADJUSTMENT  
(INCREASE) OF RATES AND CHARGES, TERMS AND CONDITIONS, FOR SEWER  
SERVICE PROVIDED TO CUSTOMERS IN ITS RICHLAND AND KERSHAW  
COUNTY SERVICE AREAS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is William C. Kleckley. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as an Auditor, in the Audit Department of the South Carolina Office of Regulatory Staff ("ORS").

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received a Bachelor of Science Degree in Business Administration with majors in Accounting and Finance from the University of South Carolina in December 2017. In June 2018, I began my employment with ORS and since then have participated in various cases involving the regulation of electric, gas, water and wastewater utilities.

**Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION")?**

**A.** No. I have not previously testified before the Commission.

**Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

A. ORS represents the public interest as defined by the South Carolina General Assembly as:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

A. The purpose of my testimony is to set forth ORS's findings and recommendations resulting from ORS's examination of the application of Palmetto Utilities, Inc. ("PUI" or "Company") in Docket No. 2019-281-S. The application was filed on November 27, 2019. Specifically, I address ORS's findings and recommendations for the following adjustments:

- Adjustment 2A – Purchased Power
- Adjustment 2B – Contract Services – Management Fees
- Adjustment 3A – Depreciation Expense
- Adjustment 3B – Amortization of Contributions in Aid of Construction ("CIAC")
- Adjustment 5B – Pro Forma Property Taxes
- Adjustment 10 – Gross Plant in Service
- Adjustment 11 – Accumulated Depreciation
- Adjustment 12 – CIAC
- Adjustment 13 – Accumulated Amortization of CIAC

**Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?**

A. Yes. The review to which I testify was performed by me or under my supervision.

**Q. PLEASE EXPLAIN ORS'S RECOMMENDED ADJUSTMENTS ADDRESSED IN YOUR TESTIMONY.**

A. Adjustment 2A - Purchased Power

The Company proposes an adjustment in the amount of \$99,770 to Purchased Power expense to remove one-time electric credits related to the V.C Summer nuclear project and the lower corporate tax rate. ORS accepts the Company's adjustment. PUI's updated

Purchased Power expense of \$1,141,145, less the Company's per book amount of \$1,041,375, yields the adjustment amount of \$99,770.

Adjustment 2B - Contract Services – Management Fees

The Company proposes an adjustment in the amount of \$44,820 to adjust for increases in ESG Operations, Inc.'s most recent contract. ORS accepts the Company's adjustment. PUI's allocated portion of its updated contract expenses of \$1,761,752, less the Company's per book amount of \$1,716,932, yields the adjustment amount of \$44,820.

Adjustment 3A - Depreciation Expense

The Company proposes an adjustment in the amount of \$30,913 to depreciation expense to reflect new capital expenditures and asset retirements. ORS proposes an adjustment in the amount of (\$121,302) to adjust depreciation expense for ORS adjusted depreciable plant in service as of February 29, 2020. The details of ORS's proposed adjustment are shown in Exhibit CLS-3.

Column 1 of Exhibit CLS-3 shows the Company's adjusted per book plant in service from its application. Column 2 details adjustments made by ORS for fully depreciated assets through February 29, 2020 in each plant category based on the property records provided by the Company. Some items totaling \$12,350 were included in Column 2 that were considered nonallowable in prior PUI rate cases but to prevent double removal they are only presented in Column 2 as fully depreciated, instead of Column 4.

Column 3 details ORS's additions to plant in service to include \$102,944 for a Vacation and Camera truck that were removed as part of the last Palmetto Wastewater Reclamation ("PWR") rate case, Docket No. 2018-82-S, and allocated to PUI. Column 4 details ORS nonallowable plant items from previous PUI rate cases, specifically, Docket

Nos. 2013-42-S and 2017-228-S. The nonallowable plant items from prior rate cases include (\$29,797,465) for the sewer collection system Palmetto of Richland County, LLC acquired from the City of Columbia (“PRC Plant”) for which a valuation decision was deferred until this case. Other nonallowable items from prior cases totaling (\$855,123) include duplicate items, land costs not supported by formal easement or purchase agreements and costs for which insufficient supporting documentation was provided. In Docket No. 2017-228-S, ORS also identified items that should have been removed, including costs associated with Rapid Infiltration Basins and PWR. ORS also discovered plant items in the prior rate case related to the 1710 Woodcreek and 1713 Woodcreek properties that were recorded entirely on the books and records of PUI but should have also been allocated amongst Ni Pacolet Milliken Utilities, LLC’s other operating utilities. The total nonallowable plant items of (\$30,652,588) from prior PUI rate cases in Column 4 does not agree to the total in Docket No. 2017-228-S due to some items that are now fully depreciated and listed in Column 2. Also, a plant in service item related to Crab Apple Lane that was ordered to be amortized over five years as an extraordinary retirement allowance in Order No. 2018-155, as part of Docket No. 2017-228-S, was removed by the Company.

Column 5 details ORS’s current nonallowable items for this case to account for the removal of the 1710 Woodcreek building in the amount of (\$491,900) and the allocation of (\$9,759) in office furniture and computers related to 1710 Woodcreek and 1713 Woodcreek. The 1710 Woodcreek building, which is not owned by PUI, is being removed by ORS because it is owned by Ni South Carolina Utilities, Inc., which in turn, charges PUI rent for office space as outlined in Company Witness Daday’s Direct Testimony on pages 11-12. The rent expense charged to PUI is accounted for in adjustment 2D. The office furniture and

computers were allocated by Equivalent Residential Customers (“ERCs”) between the various utility operations using the 1710 and 1713 Woodcreek buildings.

Column 6 details expenses that were capitalized and included as plant in service by ORS as part of the last PUI rate case. Column 7 details ORS’s determination of the amount associated with the PRC Plant that should be included as plant in service based on the findings and testimony of ORS Witness Loy. Column 8 of Exhibit CLS-3 displays pro forma plant additions provided by the Company through the audit cutoff date of February 25, 2020 (“audit cutoff date”). Column 9 details pro forma plant retired by the Company through the audit cutoff date. Column 10 displays ORS’s calculated depreciable plant in service and reflects the total of Columns 1 through 9. Column 11 shows the service lives which were used in the Company’s application.

Column 12 details the depreciation expense calculated by ORS by using the plant in service amounts in Column 10 and dividing them by the service lives in Column 11. The total ORS calculated depreciation expense of \$6,091,383, less the Company’s per book amount of \$6,212,685, yields ORS’s depreciation expense adjustment of (\$121,302).

Adjustment 3B - Amortization of CIAC

The Company proposes an adjustment in the amount of (\$49,517) to adjust for new and retired CIAC plant items. ORS proposes an adjustment in the amount of (\$641,024) to adjust CIAC amortization expense for known and measurable changes to CIAC. The details of ORS’s proposed adjustment are shown in the CIAC section of Exhibit CLS-3.

Column 1 of Exhibit CLS-3 shows the Company’s adjusted per book CIAC amounts from its application. Column 2 details adjustments made by ORS for fully amortized CIAC in each plant category based on the property records provided by the Company. ORS used

1 the Company's property records to calculate fully amortized CIAC through February 29,  
2 2020. Column 3 details ORS's additions to CIAC which accounts for ORS Witness Loy's  
3 CIAC values for post-acquisition expansion fees related to the Northern Pipeline and the  
4 Treatment Plant.

5 Column 4 contains a \$105,731 adjustment to CIAC associated with Crab Apple Lane  
6 property that ORS identified as nonallowable in Docket No. 2017-228-S. Since the asset was  
7 removed in that Docket, ORS removed the corresponding CIAC as well. Column 5 details  
8 ORS's valuation of CIAC associated with the PRC Plant based on the findings and testimony  
9 of ORS Witness Loy. Column 6 details pro forma CIAC associated with assets placed in  
10 service through the audit cutoff date. Column 7 displays pro forma CIAC retirements through  
11 the audit cutoff date. Column 8 shows ORS's calculated amortizable CIAC. Column 9  
12 displays the service lives used by the Company in their application.

13 Column 10 calculates the CIAC amortization expense by using the CIAC amounts in  
14 Column 8 and dividing them by the service lives in Column 9. The total ORS calculated  
15 CIAC amortization expense of (\$2,499,523), less the Company's per book amount of  
16 (\$1,858,499), yields ORS's CIAC amortization expense adjustment of (\$641,024).

17 Adjustment 5B - Pro Forma Property Taxes

18 The Company proposes an adjustment in the amount of \$592,054 to adjust for  
19 property taxes related to pro forma plant. ORS proposes an adjustment in the amount of  
20 (\$15,593) to reflect ORS's adjustments to plant in service. ORS computed the adjustment by  
21 applying the Company's millage rates for PUI and PRC to ORS's net plant in service  
22 balances.

23 Adjustment 10 - Gross Plant in Service

1           The Company proposes an adjustment in the amount of \$3,429,709 to adjust for pro  
2           forma plant additions and retirements. ORS proposes an adjustment in the amount of  
3           (\$602,048) to adjust gross plant in service to reflect pro forma plant additions of \$5,107,309,  
4           retirements of (\$95,520) and other adjustments. Other Adjustments made by ORS to gross  
5           plant include the following:

- 6                     • Adjustment to agree Company's application to property records of \$3;
- 7                     • Fully depreciated nonallowable plant items from previous cases of (\$12,350);
- 8                     • ORS plant additions of \$102,944;
- 9                     • Nonallowable plant items from previous cases of (\$30,652,588);
- 10                    • ORS current nonallowables of (\$501,659);
- 11                    • ORS capitalized expenses from previous cases of \$26,325; and
- 12                    • PRC Plant valuation of \$25,423,487

13           These adjustments were explained in more detail previously in Adjustment 3A and are shown  
14           in Exhibit CLS-3.

15           The total calculated ORS gross plant in service of \$185,070,363, less the Company's  
16           per book amount of \$185,672,411, yields the ORS's gross plant in service adjustment of  
17           (\$602,048).

18           Adjustment 11 - Accumulated Depreciation

19           The Company proposes an adjustment in the amount of (\$16) to accumulated  
20           depreciation. ORS proposes an adjustment in the amount of (\$511,040). The difference is  
21           related to ORS's and the Company's differing pro forma plant in service amounts, ORS's  
22           adjustment based on the opinions of ORS Witness Loy regarding the PRC Plant, and ORS's  
23           adjustment for nonallowable items which all affect the adjustment to accumulated

depreciation. The total calculated ORS accumulated depreciation of (\$56,755,311), less the Company's per book amount of (\$56,244,271), yields the ORS accumulated depreciation adjustment of (\$511,040).

Adjustment 12 - CIAC

ORS proposes an adjustment in the amount of (\$26,970,472) to adjust CIAC to reflect the following:

- Adjustment to agree Company's application to property records of (\$26,405);
- ORS CIAC Additions related to post-acquisition expansion fees valuation by ORS Witness Loy of (\$2,487,295);
- ORS nonallowable items from the prior PUI rate case of \$105,731;
- CIAC related to the PRC Plant valuation by ORS Witness Loy of (\$23,886,986); and
- Pro forma CIAC additions of (\$737,044) and pro forma retirements of \$61,528

These adjustments to CIAC were discussed in more detail previously for Adjustment 3B.

The total calculated ORS CIAC of (\$85,573,169), less the Company's per book amount of (\$58,602,697), yields the ORS CIAC adjustment of (\$26,970,472).

Adjustment 13 - Accumulated Amortization of CIAC

ORS proposes an adjustment in the amount of \$15,038,579 to accumulated amortization of CIAC to reflect updated CIAC as of the audit cutoff date. The adjustment is related to ORS's pro forma amounts for CIAC, ORS's adjustments to CIAC for nonallowable items from the prior case, and the PRC Plant and post-acquisition expansion fee CIAC valuation by ORS Witness Loy. The total calculated ORS accumulated amortization of CIAC of \$39,351,538, less the Company's per book amount of \$24,312,959, yields ORS's accumulated amortization of CIAC adjustment of \$15,038,579.



1   **Q.     WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT**  
2       **BECOMES AVAILABLE?**

3   **A.**Yes. ORS fully reserves the right to revise its recommendations via supplemental  
4       testimony should new information not previously provided by the Company, or other  
5       sources, becomes available.

6   **Q.     DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

7   **A.**Yes, it does.